

BUSINESS, TECHNOLOGY AND FINANCE

Business and Management Issues in the Global and Digital Era

Indonesian Perspectives



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PREFACE

The rapid and continuous development of business and management throughout the world has challenged academics in the business and management field to keep up with the dynamics. At the same time, such dynamics provides a fertile ground to empirically test whether traditional theories in the business and management are still intact. Although there are some challenges from the rise of populist and protectionist movements in some parts of the world, a more integrated world is inevitable due to the rapidly growing adoption of digitalization in many facets of business and management. Everything now becomes more digitalized. The rise of financial technology has changed the ways people do activities, leading to a more decentralized business landscape than before. As a response to these developments, academic literature should be enriched by studies and perspectives from different contextual backgrounds, particularly from the emerging economies.

This book offers some empirical studies in different areas of business and management: Finance and Marketing, with the primary context of Indonesia. Indonesia is the main focus since it is a country with a promising growth which is expected to become one of the biggest economies by 2050. Several chapters in the Finance section focuses on some recent trends in the country. For example, as the government of Indonesia in the past few years have focused on infrastructure development, a study by Basuki and Haikal examines the role of Asset-Backed Securities as a financing alternative to these long term projects. With a regional economic integration among ASEAN countries, a more nuanced understanding of the regional capital market becomes necessary. The empirical chapter by Prasadhana and Baskoro, for example, is focused on the corporate governance, dividend policy, and capital market of several ASEAN countries.

In the Marketing section, we can see that some studies discuss consumers' behavior in responding to the development of online technology. A study by Wibisono and Rokhim, for example, examines factors that can influence consumers' acceptance of mobile payment that recently becomes popular, especially among Millenials in the

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country. As a response to the growing popularity of Crowdfunding, the study by Pertiwi, Sulung, and Hanggraeni provides an in-depth discussion on the importance of social capital on the adoption of Crowdfunding.

We expect that these empirical chapters can contribute to the mainstream theories and discussions in business and management academic literature. We thank all contributors to this book for their invaluable involvements in the publication of this book.

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Chapter 9

**THE INFLUENCE AND RELATION
BETWEEN INTEREST RATES, TIGHT MONETARY
POLICY, THE GROWTH AND DEVELOPMENT
OF MICRO, AND SMALL AND MEDIUM ENTERPRISES**

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ABSTRACT

The importance of this research is to determine whether the interest rates and tight monetary policy set by Indonesian banks create obstacles for micro and small and medium enterprise (SMEs). Often when micro and SMEs face difficulties, they tend to blame

interest rates and tight monetary policy. As a result, this paper seeks to research the influence of and relationship between interest rates and tight monetary policy on the

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growth and development of micro and SMEs. This paper uses the case study method with a quantitative and semi-structured qualitative method. The research object consists of 192 respondents from street peddlers in West Jakarta. Data was collected via observation, questionnaires, and interviews. The results revealed an influence of and relationship between interest rates, tight monetary policy, and the growth and development of micro and SMEs. Furthermore, the results showed that the micro and SMEs program is well-suited as a twenty-first-century program for the Indonesian economy.

Keywords: interest rates, tight monetary policy, growth of micro and SMEs, and development of micro and SMEs

INTRODUCTION

Indonesia's small and medium enterprises (SMEs) are ready to overcome and grapple with tough new challenges despite the many obstacles. Currently, the government is very determined to push the growth of SMEs: the sector that could turn challenges into exciting opportunities (Yasa, 2016). It is evident that SMEs play an important role in the development of modern economies, so it is necessary to analyze the fundamental problems facing SMEs (Levy, 1993). According to Herr and Nettekoven (2017), SMEs reflect a country's economic progress; micro and SMEs' use small amounts of capital, but it is significant in moving economy of the country. Magariños (2002) stated that the development of systematic productive is SMEs. Therefore, SMEs helps in absorbing the productive resources of economy level and is able to contribute to create of a robust economic system for small and large companies that are interrelated. Only micro and SMEs were able to survive the American financial crisis wave. Micro and SMEs used their own business capital for rupiah currency loans (Kartasasmita, 2000). Hence, SMEs are a cornerstone of the national economy because of their resistance to economic turmoil. Moreover, employees of SMEs have not been laid off on a large scale compared to the large business sector, which laid off many to avoid company bankruptcy (Yoshino and Taghizadeh-Hesary, 2016). The problem is many of the actors in SMEs lack knowledge of economic and financial matters, and even though they understand the repayment principle, they find it difficult to cover the interest costs on the sales production loan in their prices. The authors of this paper randomly interviewed peddler SMEs who obtain loans from banks as SMEs. Most of the peddlers have little knowledge about financial behavior and lack knowledge of economic systems. Another problem is the tight monetary policy from

the government that significantly affects the SMEs due to increasing interest rates as well as the scarcity of money held in the commercial banks. These factors make it difficult for SMEs to obtain loans to expand their businesses. This research aim is to find out the problem between interest rates for loan and the selling price of micro and SMEs business. Overall, this research continues to explore the influence and the connection of interest

rates and tight monetary policy on the growth and development of SMEs. The Indonesian government stated that SMEs successfully alleviate poverty in Indonesia (Yasa, 2016).

LITERATURE REVIEW

Understanding Micro and SMEs

Data from the Indonesian Ministry of Finance and Cooperatives (2004) indicated that the SME in Indonesia is based on annual sales revenue and net assets. According to the rule and regulation of SMEs in Indonesia, micro companies can be defined as companies with net assets of less than IDR 50 million (excluding land and buildings) or annual total sales of less than IDR 300 million. Or small companies are companies with assets between IDR 50 million and IDR 500 million where land and building assets are not included. It can be mentioned that the total annual sales are from IDR 2.5 million – 50 billion. For SME finance, it is seen from the size of the company so that the financially based category can determine the company's goals.

The problem arises when the micro and SMEs ask for access for profitable loan of business growth. In obtaining the credit from formal financial system such as bank, creditor must meet the requirement which is difficult to meet the requirement. But the difficulty to get SMEs credit can be able to submit to financial institution (Yoshino and Taghizadeh-Hesary, 2016). As it happens, all governments in the world promote and support the growth of SMEs, because overall it is a national development strategy (Magarios, 2002). And in the world economy, SMEs are a big business sector. More than 90% of SMEs provide employment opportunities and in developing countries this can reduce poverty. SMEs in Indonesia, can contribute more than 70% of GDP (Florentin, 2016). But the problems faced by SMEs are financing (Beck, Demirgüç-Kunt, Laevan, and Maksimovic, 2006). Reports from micro and SMEs are a matter of funding, furthermore banks and financial institutions need collateral to get credit and if the debtor cannot repay the loan, then the bank can use collateral to offset or reduce their losses. Another problem faced by micro and SMEs is because of the inability of SME actors to get credit, so banks provide high interest rates (Bank of Indonesia, 2007). To obtain collateral-based loans for micro and SMEs is to reduce the risk premium in the loan formulation. Therefore, on the capital agreement, the Indonesian government as the principal for lending can expand financial policies for micro and SMEs so as to reduce financial problems or constraints on micro and SMEs (Yoshino and Taghizadeh-Hesary, 2016)

It is known and accepted that accounting plays an important role in micro and SMEs activities; the smooth flow of activities, micro actors and SMEs have a level of accounting knowledge that is appropriate and in line with the accounting function (Mohd.

Salem, Mohd. Nasir, and Mohd Nazif, 2017). Study from Salikin et al. (2014) mentioned that micro actors and SMEs do not adopt many financial management tools and worse they do not have internal accounting staff. However, Nurhalim (2014), argued that financial institutions gave basic financial management tools and training to micro and SMEs, and they could manage financial problems even if there were a financial crisis. Also, Jayabalan et al. (2009) advised that SMEs must be aware that accounting information and its use in management control and appropriate decision making must be competitive in the corporate world.

A Path in Managing Finances in Micro and SMEs

The offer of types of loans, savings, and cooperative loans for micro and SMEs is carried out legally by state formal financial institutions such as Bank Perkreditan Rakyat and other formal financial institutions such as the Otoritas Jasa Keuangan (OJK) or Financial Services Authority.

Other commercial banks also serve credit loans for micro and SMEs and all limit loans in accordance with their finances. Islamic Shariah Banks had also recently provided credit loans (Timberg, 1999).

The micro and SME sectors are significant, but because of marketing, and lack of infrastructure, and lack of skills, scarcity of capital goods and poor management can make these loans difficult. However, the unavailability of adequate financing facilities is the biggest problem faced by micro actors and SMEs that offer money management and financial management training and counseling to assist in optimizing the businesses (Panggabean, 2014). The purpose of this study is to investigate interest rates and tight monetary policy, hence the main importance of this research is the transmission of monetary policy, and see the response function of the economic system in Indonesia that identifies restrictions and sequences of interest rate equation variables as important criteria (Christiano, Eichenbaum, and Evan 1998). The importance of regulations and constraints on business in Indonesia are policies on domestic competition also trade; these barriers include economic activities, but from Indonesia financial institutions claim that the SME sector gets preferential treatment (Timberg, 1999). Owners of SMEs who lack financial knowledge are given money and financial management training (Sari, 2016).

According to Bayrakdaroğlu and Şan (2014), financial institutions that give them credit also give the money and financial management training and counseling. When the training is completed, the SME actors will have the ability to manage their finances having gained skills for their business. With the knowledge of financial systems, including interest rates and tight monetary policy, the actors are ready for the future as SMEs.

RESEARCH METHOD

Research Design

The method of the research is case study observational research where the phenomena are observed and recorded using interviews, descriptive analysis, literature review, focus group discussions, and quantitative methods. The 192 respondents were identified from questionnaires handed out to SMEs actors in the streets in West Jakarta. For qualitative research purposes, ten actors were interviewed. A Likert-scale was used for the items: [1] strongly disagree, [2] disagree, [3] neutral, [4] agree, and [5] strongly agree.

Research Diagram

The research methods were implemented as shown in the Figure 1. The flowchart of this research methodology is a description of the research steps. This method of research stems from problem determination, data collection, data analysis, conclusions, and suggestions. This method is the basis of this research.

Research methods is implemented as the flow diagram below:

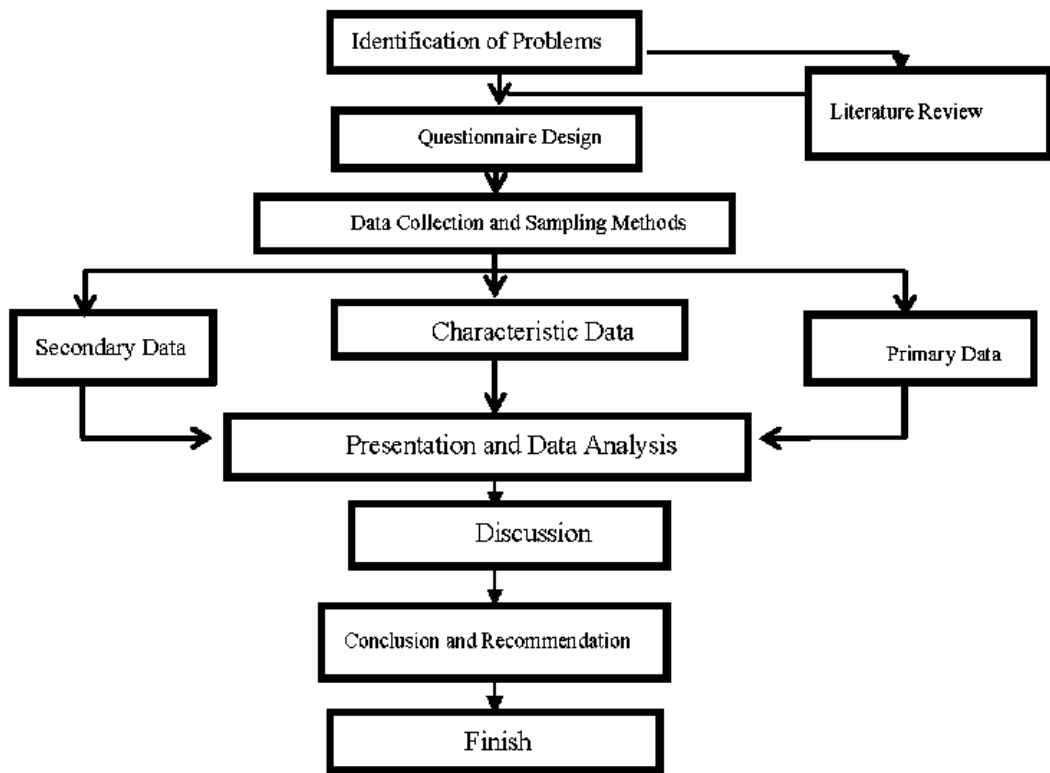


Figure 1. Flow chart of research methodology.

Data Collection and Analysis

Primary data was obtained from the questionnaires of 192 respondents in West Jakarta from December 2017 to April 2018. The respondents were SME actors who work as peddlers in the streets. Data collection methods were observations, a literature review, focus group discussions, and corresponding probabilistic type interviews. Each respondent filled out the program application. Semi-structured interviews were taken in weeks two and three in January 2018 with about two weeks to interpret the contents of the influence of interest rates and tight monetary policy on the growth of SMEs. The presentation of data in this research is in the form of tables, drawings, and graphs. Secondary data can be directly analyzed because it has undergone processing from the primary source. The performing data analysis to get the optimal output was done by canonical correlation with the software package, Statistical Package for Social Sciences, version 23.

Hypothesis

Before researching, there was an extensive exploratory phase to determine the hypothesis. The study identified three categories for the hypothesis.

The hypothesis of the research:

1. Finding the problem between loan interest rates and the selling price of micro and SMEs business (H1)
2. Finding out the relationship between the strict monetary policy issue on the development of micro and SMEs (H2)
3. Finding the problem of loans for SMEs to make the business work and grow (H3)
4. The influence of interest rates and tight monetary policy on the growth and development of SMEs (H4)

The hypothesis of this research are as follows:

HO : All canonical correlations are zero

H1 : At least one canonical correlation is not zero

Criteria of conclusion: The null hypothesis is rejected at the level of significance α (0.05) if the test statistic $>$ sig. 0.05

The equation model used for the correlation is:

$$X1 + X2 = Y1 + Y2 \quad (1)$$

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Interest rate + Tight Monetary Policy = MSME + SME Development (2)
Conceptual framework as shown in Figure 2.

ANALYSIS AND RESULT

Result of Reliability Test

The data is found for the reliability test from each category.

From the Table 1, it is indicated that four variables, X1, X2, Y1, Y2, are reliable. Variable X1 is for the influence of the interest rate. X2 is for the influence of the tight monetary policy. Y1 is for the growth of SMEs, and Y2 is for the development of SMEs.

Variables X1, X2, and Y1 are above 0.600, indicating that the questionnaires of these variables are reliable, except for variable Y2 = 0.530, which stated that the knowledge of the SMEs respondents or actors is weak.

Next, it is shown the determination of the test of homoscedasticity, which tests H1, H2, H3, and H4, and the assumption of the test is shown on the scatter plot.

Conceptual Framework

Set Variable Independent Set Variable Dependent

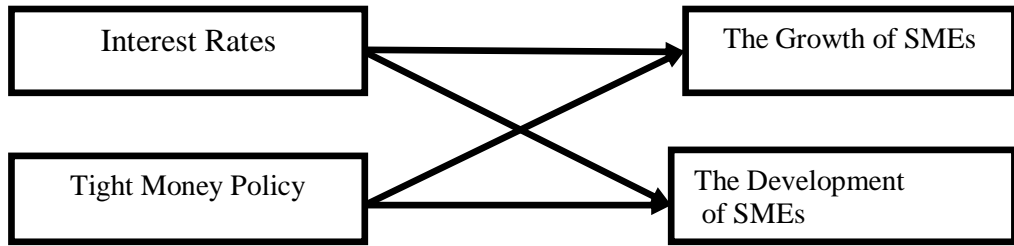


Figure 2. Conceptual framework.

Table 1. Reliability for each category of SMEs

Variables	X1	X2	Y1 Y2
X1	0.703		
X2		0.837\	
Y1			0.707
Y2			0.530

Scatterplot
Dependent Variables : The growth of Micro and SMEs

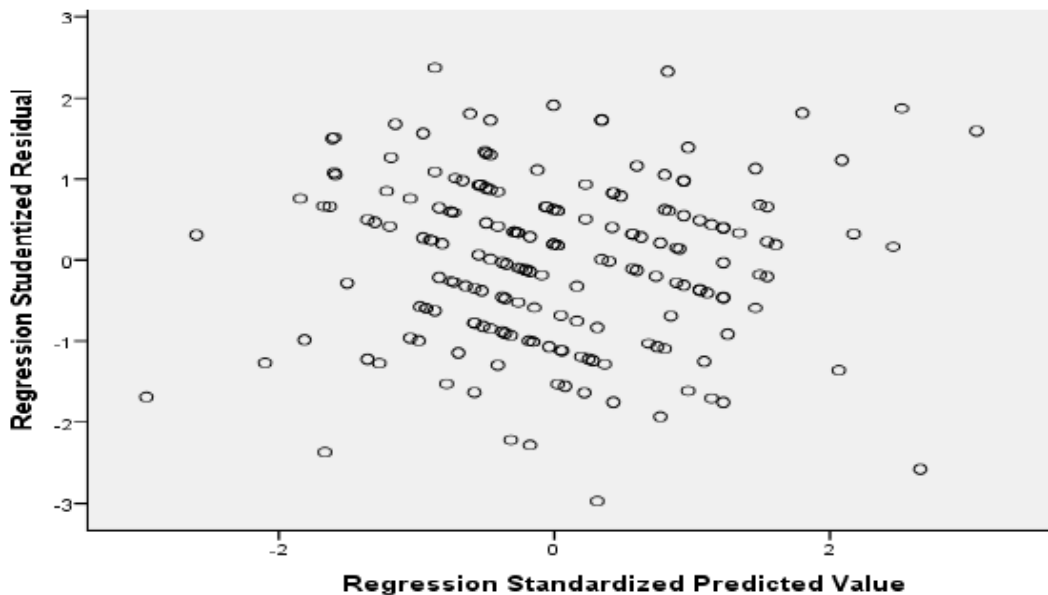


Figure 3. Result of the homoscedasticity scatter plot.

Table 2. Collinearity of regression

Dimension	Eigenvalue	Variance Proportions		
		(Constant)	Influence of interest rate	Influence of tight money policy
1	2.965	0.00	0.00	0.00
2	0.022	0.01	0.76	0.49
3	0.013	0.99	0.24	0.51

The result of the heteroscedasticity scatter plot test shows the plot spreads above and below the zeros on the Y-axis; thus, there is no heteroscedasticity (see Figure 3).

Then, the research will test for collinearity.

From the Table 2, the result of the test for collinearity of regression shows that the relationship between each variable is found to be an eigenvalue that should be 0.01 with a value of index condition less than 30. Also, there will be no multicollinearity between each independent variable.

Significant Canonical Test for Individual Level and Between Pairs

Eigenvalues and Canonical Correlations

Root No.	Eigenvalue	Pct.	Cum. Pct.	Canon Cor.	Sq. Cor
1 .	15726	95.62773	95.62773	.36864	.13589
2 .	00719	4.37227	100.00000	.08449	.00714
	<i>The Influence of and Relation between Interest Rates ...</i>				151

Dimension Reduction Analysis

Roots	Wilks L.	F	Hypoth.DF	Error DF	Sig. of F
1 TO 2	.85794	7.40492	4.00	372.00	.000
2 TO 2 .	99286	1.34460	1.00	187.00	.248

From the model above, it is found of two independent variables and two dependent variables. Even though the value of each correlation between the two variables is below 0.5 or 0.368 and the first function shows 13.6% and 0.084 as the second function, it only describes 0.7% for the variable dependent (root 1 and 2), Also, it shows in a significant test that the function of canonical roots 1 to 2 and roots 2 to 2 that the first function has a significant value of 0.000, so the result will continue to be analyzed to show the value of canonical loading or to state the relationship between the dependent variable and the independent variable. Then, correlation between the dependent and independent variables can be tested.

Correlations between DEPENDENT and canonical variables

Variable	Function No.	
	1	2

Y1	.80057	-.59924
Y2 .	74626	.66566

Correlations between COVARIATES and canonical variables

Covariate	CAN. VAR.	
	1	2
X1	.88824	.45938
X2	.55716	-.83040

For function 1, it is shown that the value of the canonical loading is 0.80057 and the second function is 0.74626, where both of them are above 0.0. From the result of canonical loading, it is stated that there is a significant relationship between the independent variable and dependent variable or the growth of SMEs (Y1) and the development of SME (Y2) are correlated with the interest rate (X1) and the tight money policy (X2).

RESULT AND DISCUSSION

The application of interest rates is determined in the element that equates savings with investment. The demand for borrowing, the use of supply and demand at the equilibrium level is the savings calculated by determining the intersection, moreover if savings are greater than investment, the interest rate falls to balance and vice versa (Mnang 'at, Namusonge and Oteki, 2016). As the reliability of variables X1, X2, and Y1 are above the standard level (0.600), each of the variables has a strong influence on SMEs, except Y2, which indicates that the knowledge of the respondents is weak. After sharing some knowledge of financial management and management skills with the street peddlers' micro and SMEs, the problem of interest-bearing loans and the selling price for micro and SMEs business is reduced. However, to ensure the continuity and sustainability of SME operations, profitability can be maximized. Profits and often are far behind from personal, non-economic goals, such as autonomy or independence, personal satisfaction and achievement, or work flexibility (Timberg, 1999). To tackle the tight monetary policy issue and to develop micro and SMEs, such as the street peddlers' micro and SMEs, counseling and training should be undertaken. The actors or respondents should receive training and counseling on the knowledge of financial systems, so they can get the necessary skills. In the interviews of some of the actors of micro and SMEs, it was mentioned that most of

them are not accustomed to recording and preparing reports as an illustration of business activities and financial position. Financial statements are one of the components that the actors must comply with if they want to expand their businesses by applying to financial institutions (Hadiyati, 2015). SMEs should be encouraged to record every business activity that occurs and compile financial statements. After receiving the SME training and counseling, the street peddlers can continue the business. It is also suggested that the government should keep interest rates low to enable the SMEs to grow and to reduce unemployment. The demand for financial services by SMEs at the market level is anecdotal evidence that shows that finance is a crucial important factor. These factors influence the marketing of SMEs, and the government should make regulation on the interest rates for the street peddler micro and SMEs in West Jakarta, so they can stay in business.

CONCLUSION

Street peddlers' micro and SMEs lack knowledge and skills when selling their goods. Financial and management skills training can address this and alleviate the problem that micro and SMEs because the interest-bearing, loan, costs can cover the selling price.

Profit maximization continues to be improved and the achievement of financial satisfaction can ensure the continuity of micro and SMEs.

The development of tight monetary policy for micro and SME actors can be developed by conducting financial management counseling and training.

Micro and SME actors can be improved by having knowledge and training in management skills in order to improve their business.

Finally, overall, with government supports, the benefits of counseling and positive energy and training can help them to contribute to the people's economic sustainability.

SUGGESTIONS AND RECOMMENDATIONS

Interest rates must be kept stable and low in order for micro and SMEs such as street vendors can maintain their business properly.

Each of street peddlers must learn about financial literacy and financial knowledge in order to understand business.

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